SENATE RECORD VOTE ANALYSIS

104th Congress July 9, 1996, 3:10 p.m.

2nd Session **Vote No. 186** Page S-7468 Temp. Record

SMALL BUSINESS-MINIMUM WAGE/Final Passage

SUBJECT: **Small Business Job Protection Act . . . H.R. 3448. Final passage, as amended.**

ACTION: BILL PASSED, 74-24

SYNOPSIS: As passed, H.R. 3448, the Small Business Job Protection Act of 1996, will enact numerous tax reforms for small businesses, will extend expiring tax credits, will reform and simplify pension laws, and will increase the minimum wage to $4.70/hour on July 5, 1996, and to $5.15/hour on July 5, 1997. The cost of the tax changes will be offset, primarily by phasing out the section 936 tax credit for conducting business in Puerto Rico. Details are provided below.

Small Business and other tax provisions include the following:

- the amount that small businesses may expense (write off in 1 year instead of amortizing) will be increased gradually to $25,000;
- gas stations and convenience stores will be depreciated over 15 years instead of the current 39 years;
- S corporation reforms will be made that will make it easier for smaller businesses to take advantage of this filing status; those reforms include increasing the number of subchapter S shareholders and granting greater flexibility in the use of multiple subchapter S corporations;
- the SIMPLE pension plan will be established, which will give small businesses tax-favored treatment when they establish pension plans and which will eliminate most of the Federal redtape associated with creating pension plans;
- investment retirement account (IRA) discrimination against homemakers will be ended by increasing the amount that homemakers may put in an IRA annually to $2,000;
- tax-exempt organizations will be permitted to set up 401(k) retirement plans for their employees;
- the section 29 alternative fuels credit will be extended until December 31, 1998; most other expiring tax credits, including the employer provided education tax credit, will be extended until December 31, 1997 (see vote No. 185); and
- the Labor Department will develop guidelines to apply the Employee Retirement Income Security Act (ERISA) to insurance company general accounts, and the recent *Harris Trust* decision will not be applied retroactively (see vote No. 185).

Offsets to pay for these provisions include the following:

(See other side)

YEAS (74)			NAYS (24)		NOT VOTING (2)	
Republicans (27 or 53%)	**Democrats (47 or 100%)**		**Republicans (24 or 47%)**	**Democrats (0 or 0%)**	**Republicans (2)**	**Democrats (0)**
Abraham	Akaka	Inouye	Ashcroft		Cochran-[2]	
Campbell	Baucus	Johnston	Bennett		Cohen-[2AY]	
Chafee	Biden	Kennedy	Bond			
D'Amato	Bingaman	Kerrey	Brown			
DeWine	Boxer	Kerry	Burns			
Domenici	Bradley	Kohl	Coats			
Frist	Breaux	Lautenberg	Coverdell			
Gorton	Bryan	Leahy	Craig			
Grams	Bumpers	Levin	Faircloth			
Grassley	Byrd	Lieberman	Frahm			
Gregg	Conrad	Mikulski	Gramm			
Hatfield	Daschle	Moseley-Braun	Hatch			
Jeffords	Dodd	Moynihan	Helms			
Kassebaum	Dorgan	Murray	Hutchison			
McConnell	Exon	Nunn	Inhofe			
Murkowski	Feingold	Pell	Kempthorne			
Pressler	Feinstein	Pryor	Kyl			
Roth	Ford	Reid	Lott			
Santorum	Glenn	Robb	Lugar			
Shelby	Graham	Rockefeller	Mack			
Simpson	Harkin	Sarbanes	McCain			
Snowe	Heflin	Simon	Nickles			
Specter	Hollings	Wellstone	Smith			
Stevens		Wyden	Thomas			
Thompson						
Thurmond						
Warner						

EXPLANATION OF ABSENCE:
1—Official Buisiness
2—Necessarily Absent
3—Illness
4—Other

SYMBOLS:
AY—Announced Yea
AN—Announced Nay
PY—Paired Yea
PN—Paired Nay

Compiled and written by the staff of the Republican Policy Committee—Larry E. Craig, Chairman

- the Puerto Rico and possessions tax credit (section 936) will be repealed effective December 31, 1995, with the following exceptions for companies that currently receive the credit: the Qualified Possession Source Investment Income credit will be repealed for companies operating in Puerto Rico the later of taxable years beginning after December 31, 1995 or earnings after June 30, 1996; companies receiving the wage credit will operate under present law for 6 years, will have the credit capped for the next 4 years, and will receive a wage credit of 40 percent (instead of 60 percent) thereafter; companies receiving the income credit will operate under present law for 2 years and will have the credit capped for the next 8 years;
- the 50-percent interest income exclusion for financial institution loans to Employee Stock Ownership Plans (ESOPs) will be repealed;
- the automobile luxury tax will be phased-out and extended through December 31, 2002;
- the Airport/Airway Trust Fund excise taxes will be reinstated; 5-year income averaging for lump-sum distributions will be repealed; and
- expatriation tax rules will be revised.

Minimum wage:

The minimum wage will be increased to $4.75/hour effective July 1, 1996, and to $5.15/hour effective July 1, 1997. No small business exemption will be provided (for related debate, see vote No. 183). Employers will have the option of offering an entry-level "opportunity wage" of $4.25/hour for the first 90 days of a worker's employment if the worker is less than 20 years old. The tip credit will remain at $2.13/hour. Under the tip credit, employees who receive a portion of their income from tips may be paid $2.13/hour, and if their tips do not then raise their pay above the minimum wage their employers make up the difference.

Those favoring final passage contended:

Argument 1:

The underlying issue is whether Americans who work hard and play by the rules to provide for their families should be given a living wage. Right now, the minimum wage is only $8,500 per year. It is at a nearly 40-year low in its purchasing power due to inflation. The last increase was enacted in 1989, and was put into effect in 1990 and 1991. We are not asking for much with this bill--all it will do is restore the real purchasing power of the minimum wage to its 1991 level. If we were to restore it to its 1968 level, we would have to raise it to $7.13/hour instead of $5.15/hour.

Many economists argue that increasing the minimum wage will hurt the economy; others argue that the evidence is weak. In fact, we have quotes from some well-respected economists who argue that the overall effect from increasing wages will be to increase consumer spending and thus spur economic growth. Frankly, given that the country has done well for the past 40 years with higher minimum wages, we find it hard to believe that increasing it will create severe problems. We feel that the economists who argue that raising the minimum wage will be good for the country are right.

More to the point, it is the right thing to do. Minimum wage workers have the most thankless jobs in America. They are teachers' aids and garbage collectors; they clean offices and restrooms, make the beds at fancy hotels, and mop the floors in public schools and hospitals. They are the people who make the engine of our economy work while laboring behind the scenes and toiling at the drudgery jobs that must be done.

Minimum wage workers have dreams for their families, their children, and their future, just like all other Americans. They have served their country in war and peace, and they still believe in the American dream. They are giving to America, not taking from it. They are fighting to stay off welfare because of the shame they would feel if they took a handout from a Government established for the people and by the people. All around them there is incredible affluence, and they are sustaining that affluence with their honest labor. They deserve a fair wage to survive and get ahead.

We believe in welfare reform. This bill is it. All Senators need to do to get people off of welfare and into the workforce is to make it possible for them to earn a living wage. Soon it is likely that time limits on receiving welfare will be enacted. When they are, those people are going to need jobs. We urge Senators in joining us in passing this bill, so that those people can get jobs that pay them enough to survive.

Argument 2:

Raising the minimum wage by itself will of course result in a net decrease in jobs. However, this bill will not simply raise the minimum wage. It also will enact numerous tax code reforms that will greatly benefit small businesses and private individuals. Taken together, we expect that the net positive effect of these changes will be greater than the negative effect of raising the minimum wage.

Having a minimum wage serves a purpose. Millions of Americans will not accept handouts if they are able to find any type of work. However, without a minimum wage, they will accept jobs that pay them too little to support themselves and their families. We think that it is appropriate to set a standard that says that it should not be legal to pay people less than the bear minimum they need to survive.

Unlike many of our Democratic colleagues, though, we are not so naive as to think such a requirement will not affect the ability of businesses to hire people. Increasing a business's expenses by making it pay more in wages obviously will affect its profitability and its ability to hire or to retain workers. It does no good to pretend otherwise. Therefore, if we are going to impose this mandate on businesses, as we should, than we think that we should also take actions that will "pay" for the mandate by lowering businesses' expenses, and thereby stop the loss of jobs.

To this end, we have managed to combine this minimum wage bill with a tax relief bill that will primarily benefit small businesses. The reason for helping small businesses in particular is that they are the main source for new jobs in America, many of which start at the minimum wage. Key reforms include subchapter S reforms and pension simplification provisions. For individuals, one of the important benefits that will be enacted for which we have long been fighting is equal treatment for homemaker IRAs. The tax package also includes numerous extensions of existing tax credits.

Our goal with this bill is to require businesses to pay higher wages, which will increase their expenses, but to remove onerous Government restrictions, thereby allowing them to grow and thus to be able to afford to pay higher wages without cutting employment. The economy does not need to be its present size; it can be bigger by reducing the size and intrusiveness of the Federal Government. This bill will achieve that end. The economy will grow, more people will be employed, and they will be employed at higher wages. We urge Senators to join us in voting in favor of final passage.

Those opposing final passage contended:

Good intentions do not justify cruel results. This principle should guide Senators' votes today. If a sober examination of all the arguments and all of the evidence leads Senators to conclude that raising the minimum wage will be harmful to those it is intended to help, then they should vote against it. Doing so, though, will take courage, because of the sleazy political demagoging to which they will be subjected. Nevertheless, they should do what is right rather than what is expedient.

The first point that Senators must realize is that this bill addresses a very small part of the workforce. Between 70 million and 80 million people are employed in America. A little more than 4 million of those workers, or less than 5 percent, receive the minimum wage. Of those 4 million workers, about 57 percent are in households with incomes of over $45,000. The main argument for raising the minimum wage is that its recipients are not receiving enough on which to live and support their families. That argument clearly does not apply to workers in families that have incomes of more than $45,000. For the less than 2 million other workers who are paid the minimum wage, Senators should be aware that many of them receive much more in pay than their wages indicate. Many of us who oppose this bill know this fact from experience, because we have held jobs as we worked our way up the economic ladder on which we made much more from tips and commissions than we did from hourly pay. Unfortunately, too many of our liberal colleagues were born with silver spoons in their mouths, and, without any practical work experience, they are unable to grasp how lucrative such jobs can be. Yet another very important point to remember is that people who currently are hired at the minimum wage receive, on average, $6.06 per hour after 1 year of employment, which is well above the present minimum wage and which is nearly $1 above the increase this bill proposes. In other words, the minimum wage is less a permanent wage than it is a training wage. Once workers know their jobs, they are given raises.

These facts, though, do not erase the reality that there are a very small percentage of Americans, primarily single mothers, who are trying to support families on the minimum wage year in and year out. Our colleagues, and we, and all other Americans quite understandably want to help these people who work at minimum wage jobs when they could take welfare benefits instead, which in every State pay more than the minimum wage. For instance, the CATO Institute has tallied the wage-equivalent value in each of the 50 States of just 5 of the 70-plus Federal welfare programs (AFDC, food stamps, Medicaid, public housing, nutrition assistance, and home heating assistance), and has found that in Massachusetts those benefits come to $14.66/hour. In Virginia, welfare recipients are given benefits from these five programs equivalent to an hourly wage of $11.11/hour; in Rhode Island they get $12.55/hour; in Minnesota they get $9.95/hour; in Colorado they get $10.05/hour; in Oklahoma they get $8.51/hour; in Kansas they get $8.41/hour; in North Carolina they get $8.08/hour; in Oregon they get $9.23/hour. In every State welfare recipients are better off financially than those people who are trying to support themselves and their families on a minimum-wage salary.

Still, in every State of the Union there are also minimum-wage workers who choose to endure extreme hardships with dignity rather than succumbing to lives of dependency in which they could double, triple, or even quadruple their incomes in return for quitting work. Further, in every State there also are many more people who would gladly quit welfare if only they could find minimum-wage jobs. Employers, though, are not going to hire people who end up costing them money. If hiring someone is going to result in a net loss of income, an employer is not going to hire that person. At the current minimum wage, and under the current tax and regulatory requirements, there are not enough minimum wage jobs for everyone who wants them. One of the anecdotes that was related by our colleagues was of a family man struggling to get by on a job just above the minimum wage at a small business with 12 employees. Interestingly, that anecdote noted that the company at which that man worked had a waiting list of 500 job applicants who would work at the minimum wage. Twelve people had jobs; if the company could have afforded to hire those other 500 people at the minimum wage, train them, and eventually pay them more when they became more productive, it would have.

Raising the minimum wage will just force companies like this one that already have waiting lists of people they cannot hire to fire workers whom they can no longer afford to employ.

It is on this last point that we part company with our colleagues. They believe that the way to help people on the minimum wage is to increase it. They do not believe that doing so will affect the number of people who are actually employed. We think that some of our colleagues are sincere. Common sense and practical experience will never shake their beliefs. Facts are meaningless to them when they have their theories. Their arguments are basically that raising the minimum wage will not seriously affect the economy or lower the number of entry-level jobs, and that a few economists agree with them. The latter point is hardly a serious argument. No proposition is so ridiculous that some economists cannot be found who support it. Many economists have built long and illustrious careers by making politically popular predictions that have proven wrong in every case. We are not saying that they are lying--they, like our colleagues, cherish their theories. They will cling to them despite all evidence or common sense. Thus, for example, the last true believers in the former Soviet Union's socialist economic system can be found in the economics departments of universities across America. If our colleagues want to cite economists, though, we will note for the record that a recent survey of the American Economics Association found that 77 percent of economists agree that, by itself, a higher mandated minimum wage will have a negative impact on employment, and that the Congressional Budget Office estimates that the particular increase proposed by this bill will wipe out between 100,000 and 500,000 minimum-wage jobs.

Our colleagues have argued that raising the minimum wage will not seriously hurt the economy, and will actually help it. We agree that it will not seriously hurt the whole economy (though we are hard-pressed to see how forcing a minimum of 100,000 people out of work will help it), because relative to the whole economy it is a small number of people and a small amount of money. However, it will have a very negative effect on the people who lose or do not get jobs as a result. Those people are the only ones who are supposed to be helped by this bill. That effect can be clearly seen by looking at teenage employment, because teenagers typically have few skills and thus usually are hired at the minimum wage. The last minimum wage increase (which was a two-tiered increase in 1990 and 1991) caused overall teenage employment to drop from 47.1 percent to 39.8 percent, and black teenage employment to drop from 28.8 percent to 20.4 percent. As inflation has eroded the value of the minimum wage to nearly the point that it was at when that minimum wage hike went into effect, overall teenage and black teenage employment have commensurately risen. Every increase in the minimum wage has had similar results. The pattern is clear: a higher minimum wage results in less people working for more money; a lower minimum wage results in more people working for less money.

By no means are we arguing for either result. Both results are cruel and unacceptable; we will not be forced into making that Hobson's choice. The Government cannot dictate prosperity by setting the minimum wage at which people may be allowed to work. Private enterprise creates wealth, not Government diktats. The way to raise wages is to remove Federal Government restraints on the economy. For instance, the capital gains tax could be cut, which would release the $8 trillion in assets that are artificially held in place to avoid taking tax losses. This action would create millions of new, high-wage jobs. Another means of increasing prosperity would be to cut the enormous tax burden on the America people, which in direct and indirect taxes exceeds 50 percent of their income. We could pass the $500 per child tax credit that President Clinton vetoed, thereby benefitting every American family rather than just the small percentage of families that rely on minimum-wage incomes, or we could eliminate the double taxation on payroll taxes that workers, but not businesses, pay. We could streamline Federal regulations which were halved during the Reagan years but have mushroomed back to Carter-levels under Presidents Bush and Clinton. Basically, we believe that the wage stagnation that has existed ever since President Clinton has been in office is not due to too few Government taxes and regulation. We certainly do not believe that the solution to wage stagnation is to enact one more mandate on the minimum wage. The problem is we have way too much Government. Since 1989, Government taxes and regulations, all well meant and designed to help Americans, have resulted in America's take-home pay declining by 6.3 percent. More do-good big Government programs and mandates are not needed; the Government is not the solution, it is the problem.

Due to Republican insistence, the minimum wage increase is being passed along with numerous tax reforms to lessen the amount of unemployment that it will cause. These tax reforms are very meritorious, and, incredibly, have bipartisan support. The minimum-wage issue, on the other hand, has not been pursued in a bipartisan spirit. From the very beginning of this debate, it has been deliberately used by Democrats as a partisan campaign tactic against Republicans. Democrats controlled both Houses of Congress and the White House in the previous Congress, yet the prime sponsor of this amendment, who was Chairman of the Labor Committee, not only did not propose increasing the minimum wage then, he did not even hold a hearing on the issue. As soon as Republicans took control of Congress, though, it became a pressing issue for Democrats. They did not seek a compromise that would offset the job-loss that would come from raising the minimum wage. They wanted, and got, a political issue. For months on end they demagoged the issue rather than trying to resolve it. They were doing so in order to try to win more votes for reelection. In the end, they agreed to this compromise because the unions wanted them to. Union workers do not make the minimum wage; they get paid more. However, they wanted this raise because it would hurt their competitors--lower-wage, nonunion companies, and because it would help them in their negotiations for higher pay.

H.R. 3448 is going to pass for political reasons. It will hurt workers by causing job losses and will hurt businesses by raising their costs. Part of the damage will be offset by the meritorious tax provisions in this bill. The fact that these provisions have been included, though, does not make it worthwhile to vote for final passage. We should pass the tax relief section by itself, and give the

American people a net benefit instead of a net wash. The minimum wage should not be increased; this bill should be defeated.